

## Consultative Committee Circular – 1/2006



To Consultative Committee Members  
From Ann Byrne, CEO  
Date 1 March 2006

Dear Consultative Committee Members,

It is with pleasure that I provide the first report of 2006. In this report I provide you with an update on issues raised at the 2005 meeting, a report on investment performance and outline our new member fee structure.

However before I begin there are two items for your diaries. Firstly UniSuper will offer Transition to Retirement from 1 April 2006 and the 2006 Consultative Committee meeting will be held on Friday 27 October at the Melbourne Hilton Airport Hotel.

Also at the 2005 Consultative Committee meeting the spouse splitting requirements had just been announced by the government with an implementation date of 30 June 2006. UniSuper will provide this flexibility to members however Trust Deed changes are required. These changes and those raised by the University of Tasmania will be made via an electronic communication before 30 June 2006. The Board will review the required changes at their May meeting.

### 1. Update on Issues Raised at the 2005 Meeting

The Minutes of the meeting of the October 2005 are attached for your information (*Attachment 1*).

#### ***i) Rationale for not allowing members who take up the flexibility option to increase their contribution to the DBD at a later date.***

At the meeting Committee members asked for more information on why members who take up flexibility are not allowed to increase their contribution to the DBD at a later date.

In providing the additional information the Actuary provided the following response and I quote:

*“ As a result of the recent Trust Deed amendments, from 1 July 2006 members of the Defined Benefit Division (DBD) will be able to choose to reduce their 7% member contribution. If they elect to do this, the Trust Deed does not allow them to subsequently increase their member contributions to the DBD (although they can elect to make additional voluntary member contributions to an accumulation account).*

*The restriction on subsequent increases to member contributions was recommended because to allow members to resume full contributions, particularly at later ages, would potentially compromise the funding of UniSuper’s Defined Benefit Division. If DBD members could reduce and then later increase their contributions to the DBD, a member who had previously elected not to contribute could subsequently increase their contribution rate at an age where the amount of benefit received substantially exceeds the contributions made.*

*If an election to reduce and then increase member contributions is done at ages well before retirement, there is an opportunity for investment earnings to provide the required funding over time. However, the risk is that the member contributions are increased at older ages when the opportunity for this is limited.*

*So, every member who had reduced their contributions below 7% would have a financial incentive to increase contributions over the years prior to retirement and thus receive a substantial return on their contributions with virtually no risk. It is likely that such an option would become well known to UniSuper members. Because it could become well known the incidence could be significant enough to impact on the financial viability of the DBP. It would also be inequitable to other DBP members who have always contributed 7% of salary, not only because of the crosssubsidisation that would occur but also because the viability of their benefits would be jeopardised.*

*Adding significantly more complexity to the DBP may be able to overcome this problem. However, the complexity is likely to make it very difficult for many DBP members to understand their benefits and therefore plan for retirement. In any case, the complexity would aim to develop accrual rates that reflected more closely the increased member contributions plus investment earnings – a result that is also achieved by the much simpler approach of simply allowing members to increase their member contributions via their accumulation account.”*

**ii) To review the Deed to ensure full flexibility for members whose employer offers flexibility of the 3% award contribution.**

The Trustee is reviewing this issue and will report at the next meeting.

**iii) Disclosure issues**

In general business the Consultative Committee requested the Trustees:

- to prepare cash flow statements and have them included in the set of audited annual financial statements of the Fund;
- adopt the policy of making the annual financial statements of the Trustee entity, UniSuper Limited, available to members (and to regard these as ‘general purpose financial reports’ that should comply with all the applicable accounting standards that would be applied by listed public companies, including standards that would require the preparation of consolidated statements encompassing UniSuper Management Pty Ltd);
- to ensure that UniSuper adopts all proposals for best practice corporate governance advanced by ACSI for listed public companies and other listed entities and to report and explain any departures from those guidelines to the Consultative Committee; and
- to disclose details of UniSuper executive remuneration to the Consultative Committee within 30 days.

Governance is a high priority issue for UniSuper particularly in light of our activities with listed companies. Therefore a review of the issues raised by the Committee has begun with the Audit and Compliance Committee for any changes being implemented for the year ended 30 June 2006.

## 2. Investment Performance to 31 December 2005

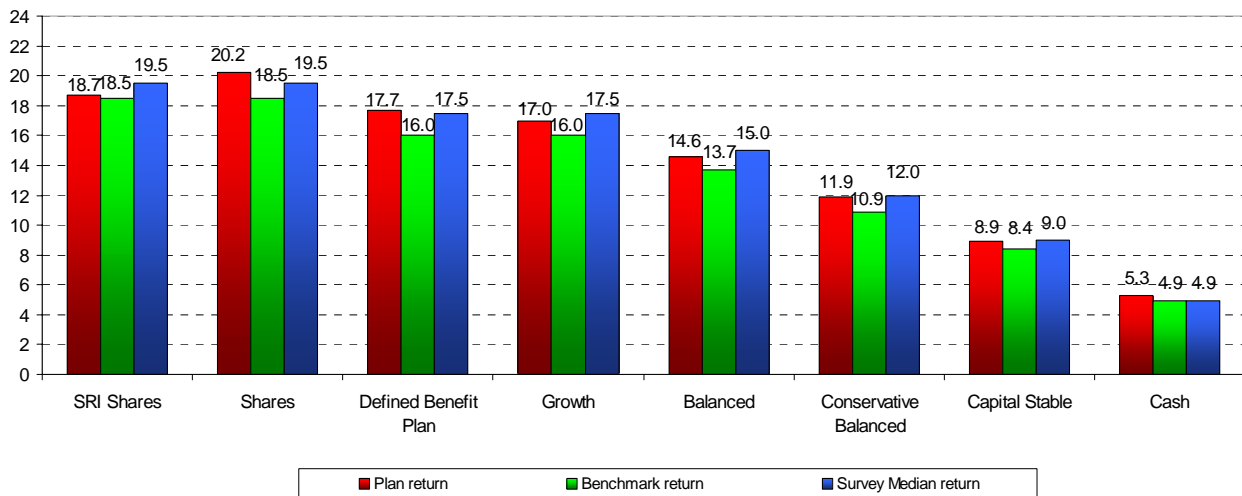
The December 2005 quarter saw a continuation of the favourable international sharemarket conditions that prevailed over the course of the calendar year. While returns during October 2005 were subdued, reflecting investor concerns regarding monetary policy and oil prices, markets quickly recovered to post strong returns for the quarter.

The MSCI World ex Australia Index rose by 7.4% on an unhedged basis and by 5.1% when hedged back into the depreciating Australian dollar. The Australian sharemarket, as measured by the S&P/ASX 300 Accumulation Index, rose by 3.5%, underpinned by strong commodity prices and favourable bond rates. Returns on bond and property investments were also positive over the December 2005 quarter.

The continuing rise in both Australian and international share markets has again contributed to strong positive absolute investment performance for the Options over the December 2005 quarter. Returns were also either above or in line with relevant benchmarks over the period.

Performance was mixed in comparison to survey medians. With the exception of the Growth and Balanced Options, Options either exceeded or broadly matched median. In the case of the Growth and Balanced Options, the higher exposure to alternative investments compared to other survey participants, at the expense of strongly performing share investments, contributed to the shortfall.

The graph below summarises Option performance (after tax and fees) for the year ending 31 December 2005.



All Options delivered substantially positive returns for the one year period ending 31 December 2005, benefiting from the robust share market conditions and have recorded outperformance relative to benchmark. While the Shares Option also outperformed relative to median, other Options either broadly matched or underperformed this measure.

The Options have performed favourably compared to other Funds included in the SuperRatings survey for the one year period to 31 December 2005 with the Growth, Balanced, Capital Stable and Cash Options all ranking in the first and second quartiles of their respective sections.

All Options have also recorded strong absolute returns for the three year period ending 31 December 2005. In addition, all Options have outperformed relative to benchmark and median and have comfortably met their respective CPI related objectives.

Performance relative to other Funds included in the SuperRatings survey was also favourable over the three years to 31 December 2005 with the Growth, Balanced and Cash Options ranking in the first quartile of their respective sections of the survey while the Conservative Balanced Option achieved a second quartile ranking.

*Attachment 2* shows the longer term performance of the Fund.

### 3. New Member Fee Structure from 1 July 2006

On the 1 July 2005 the members benefit structure was simplified so that members have one account with amounts where applicable in the various divisions of Accumulation 1 (formerly APP), Accumulation 2 (formerly ICP) and the defined benefit division. This has allowed us to analyse more clearly the cost of each of the division and so a new fee structure will be introduced from the 1 July 2006. These adjustments ensure that UniSuper's fees are levied on a cost recovery basis, without some categories of membership subsidising others. Most contributing members will find that their overall fees and charges have reduced, while some inactive members and Pensioner members will notice an increase.

	To 30 June 2006	From 1 July 2006
<b>DEFINED BENEFIT DIVISION</b>		
Account-keeping fee*	\$133 p.a.	\$106 p.a.
<b>ACCUMULATION 1</b>		
Account-keeping fee	\$79 p.a.	\$70 p.a.
<b>ACCUMULATION 2</b>		
Account-keeping fee	\$133 p.a.	\$82 p.a.
Compulsory insurance premium	\$8.40 per \$1,000 of salary upon which compulsory superannuation contributions are calculated	\$8.40 per \$1,000 of salary upon which compulsory superannuation contributions are calculated.
<b>RETAINED BENEFITS</b>		
Account-keeping fee	\$42 p.a.	\$70 p.a.
<b>SPOUSE ACCOUNTS</b>		
Account-keeping fee	\$42 p.a.	\$70 p.a.
<b>PENSIONS</b>		
Allocated Pension	\$127 p.a. +0.20% of assets p.a. to a maximum of \$798	\$127 p.a. + 0.25% of assets p.a. to a maximum of \$1,536
Defined Benefit Indexed Pension	No fees apply to Defined Benefit Indexed Pensions calculated on Trust Deed factors	
Commercial Rate Indexed Pension	\$146 p.a.	\$233 p.a. for new pensions
Term Allocated Pension	\$127 p.a. + 0.25% of assets p.a. to a maximum of \$1,536	\$127 p.a. + 0.25% of assets p.a. to a maximum of \$1,536

<b>DISCRETIONARY TRANSACTION FEES</b>		
Member and employer voluntary and lump sum contributions, spouse contributions, non-participating employer contributions	Nil	Nil
Rollovers	Nil	Nil
Investment Switch	First switch per financial year free, then \$21 per switch thereafter	First switch per financial year free, then \$25 per switch thereafter
Withdrawals**	First two per six calendar months free, then \$31 per withdrawal	\$35 per partial withdrawal. No fee on total withdrawal.
Family Law action transaction	\$50	\$60
Family Law application	\$50	\$77 per application

\* If you're a Defined Benefit Division member, these fees are not deducted from your account directly because they are allowed for in the formula used to calculate your benefit.

\*\* Active members may only withdraw unrestricted non-preserved amounts. Free withdrawals do not apply to Allocated Pensioners.

Finally a further reminder that the Annual Consultative Committee meeting will be held on Friday 27 October at the Melbourne Hilton Airport Hotel.

Regards.



Ann Byrne  
**Chief Executive Officer**

P.S. The 2006 March-June seminar program is now finalised and can be found at <http://www.unisuper.com.au/resources/seminars.cfm>

**Attachments**

1. Minutes of the Meeting of the Consultative Committee – 21 October 2005
2. Long Term Investment Performance

**Minutes of the Meeting of the Consultative Committee  
Held at the Hilton Melbourne Airport Hotel, Tullamarine  
on 21 October 2005 at 10.30 am**

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**1. OPENING OF MEETING**

Brian Smith, Chairman of UniSuper Limited, opened the meeting and welcomed the participants. He also gave a brief update to the Committee on some of the issues that UniSuper now faced in the Choice of Fund environment.

The Chairman informed the Committee of the results of the recent Board elections and:

- welcomed Warren Snell to the Board as the new Consultative Committee elected employer representative;
- thanked Graham Scott for his service as a director for a period of over 17 years;
- congratulated Paul Richardson on his reappointment as a Consultative Committee elected employer representative; and
- congratulated Ted Murphy and Elana Rubin on their reappointment by the relevant unions.

**2. APPOINTMENT OF CHAIRPERSON**

Colin McAndrew (Griffith University), the person nominated to act as his proxy by the elected Chairperson for the meeting (Graeme Dennehy – University of New England), took over the role of Chairperson for the meeting.

**3. STANDING RULES**

It was agreed that the standing rules for the conduct of the meeting as proposed in the agenda papers be adopted.

**4. MINUTES AND MATTERS ARISING FROM PREVIOUS MEETING**

The minutes of the previous meeting on 5 November 2004 and the report on the matters arising were noted.

**5. (a) PRESENT**

106 members were present as per attendance register, representing a quorum for each of the three sectors of membership.

**(b) IN ATTENDANCE**

Four Directors of UniSuper: Ted Murphy, Elana Rubin, Brian Smith and Iain Wallace, along with Paul Richardson, Diana Olsberg and Heather Nash who are Committee members.

The following advisers: Mark Cerche, legal adviser from Allens Arthur Robinson and Matthew Burgess, Fund Actuary, and Kate Maartensz of the Russell Investment Group.

Observer: John Mullarvey of the AVCC.

26 staff of UniSuper with John Mitchell acting as secretary.

**(c) APOLOGIES**

Phil Hagan (Macquarie University)  
Marian Burford (Victoria University)  
David Swann (Central Queensland University)  
Robert Errey (University of Ballarat)  
Mark Nugent (University of Sunshine Coast)  
Ian Dudley (Central Queensland University)  
John Pearson (University of Southern Queensland)  
Susan MacIntosh (The University of Adelaide)  
Scott Snyder (Charles Darwin University)  
Rhonda Hawkins (University of Western Sydney)

**(d) PROXIES**

Graeme Nyberg (LaTrobe University) in favour of Diana Olsberg  
Dave Abbott (University of Tasmania) in favour of Des Fitzgerald  
Tim Sprague (Macquarie University) in favour of Neil Morris  
Graeme Dennehy (University of New England) in favour of Russell Elliott  
Bernard Lillis (University of Tasmania) in favour of Stuart Andrews  
Scott Logan (The University of Western Australia) in favour of Robert Farrelly  
Carroll DeVizio (University of South Australia) in favour of Raelene Barclay  
Ian Marshman (The University of Melbourne) in favour of David Percival  
George Kriflik (University of Wollongong) in favour of Peter Gray  
Dale Pinto (Curtin University of Technology) in favour of Diana Olsberg  
Joseph Winsen (The University of Newcastle) in favour of Michael Skully  
Heather Whelan (Monash University) in favour of the Chairman  
Greta vom Berg (Murdoch University) in favour of Ian Callahan  
John Summers (Flinders University) in favour of Diana Olsberg  
David Nicholson (Victoria University) in favour of the Chairman  
John Steele (University of Wollongong) in favour of Damien Israel  
Wes Walker (University of Ballarat) in favour of Paul Richardson

**6. CHIEF EXECUTIVE'S REPORT**

Ann Byrne, Chief Executive Officer of UniSuper, updated the Committee on the events of the last year, future plans of UniSuper and some issues of importance within the superannuation industry. Issues covered included:

- the introduction of Choice of Fund;
- member age, state and product distribution statistics;

- the 30 June 2005 financial year results including the Vested & Accrued Benefit Indices of the DBP;
- the benefits provided to UniSuper pensioners;
- investment Performance;
- the UniSuper approach to investment corporate governance;
- the work of the Education & Advisory Services Team (EAST) ;
- the UniSuper philosophy on fees and charges including disclosure of such; and
- the challenges to be faced in the next 12 months.

Ann spoke to a Board stakeholder discussion paper entitled 'Financing the Superannuation Liabilities of the UniSuper Defined Benefit Plan'. The paper has been circulated to Vice Chancellors and copies were provided to Committee members.

Ann Byrne answered questions from the floor on various issues including:

- the relative levels and importance of the Vested Benefit (VBI) and Accrued Benefit (ABI) Indices; and
- the policy re the distribution of DBP surplus.

## **7. PROPOSED TRUST DEED AMENDMENTS**

Ann Byrne summarised the proposed Trust Deed amendments and explained that the various amending clauses to the Trust Deed would have different implementation dates as detailed below:

### ***Effective 1 July 2005***

Choice of Fund; and  
Portability.

### ***Effective 1 July 2006***

Contribution flexibility around the 7% employee contribution;  
Flexibility for members with an excess Reasonable Benefit Limit; and  
Consultative Committee member representative eligibility.

### ***Effective at a date to be determined by the Board***

Transition to Retirement; and  
Preservation and cashing conditions under SIS.

The following items were clarified and/or discussed:

The CEO confirmed that UniSuper would be providing all relevant educational support to assist members and employers with the introduction of the flexibility provisions.

That subject to the limitations of ASIC regulations in this area, UniSuper would be providing a calculator on its website to assist members with understanding the implications of electing to take up member contribution flexibility.

It was confirmed that based on actuarial advice once a person has elected to take up member contribution flexibility in the DBD, they will not be able to reinstate their member contributions into the DBD in future. DBD members will however be able to make additional voluntary contributions at any time to their accumulation account.

The Board Chairman informed the Committee that the Board would look at this issue again and provide further detail to the Consultative Committee.

A number of issues were raised by members requesting the Board to further review particularly:

- That if a member wished to choose a fund other than UniSuper under choice of fund they be allowed choice of the total employer contribution; and
- That changes be made to the Trust Deed to ensure full flexibility for a member where an employer offers staff the ability to take the 3% award contribution as salary.

After discussion by the Committee IT WAS RESOLVED that the Consultative Committee supports the proposed Trust Deed amendments.

## **8. GENERAL BUSINESS**

### *Trustee Board and Governance Arrangements*

Professor Robert Walker, academic staff representative from the University of Sydney, talked to his paper which had been circulated with the meeting information. He believed that UniSuper, as a member of ACSI, which has supported enhanced governance arrangements in the private sector, should itself provide leadership by setting the benchmark for best practice in reporting by industry superannuation funds.

He proposed the following motions which were seconded by Cecilia Spence of Canberra University.

The motion included in the papers was that the Consultative Committee request the Trustees to:

1. Prepare cash flow statements and have them included in the set of audited annual financial statements of the Fund;
2. Adopt the policy of making the annual financial statements of the Trustee entity, UniSuper Limited available to members (and to regard these as 'general purpose financial reports' that should comply with all the applicable accounting standards that would be applied by listed public companies, including standards that would require the preparation of consolidated statements encompassing UniSuper Management Pty Ltd ); and
3. Ensure that UniSuper adopts all proposals for best practice corporate governance advanced by ACSI for listed public companies and other listed entities - and to report and explain any departures from those guidelines to the Consultative Committee.

The following motion was added by Professor Walker:

4. That the Consultative Committee request the Trustees to consider disclosing details of UniSuper executive remuneration to the Consultative Committee within 30 days.

The CEO drew the attention of the Committee to the response in the Committee papers suggesting that in light of further enhancements to the ACSI guidelines and regulatory developments the Audit and Compliance Committee has on its agenda for the current year to review the UniSuper disclosure practices. The Committee would further address Professor Walker's suggestions in that context.

The Committee discussed the proposal raising the following issues:

- The disclosure of potential conflicts of interest by Committee members;
- That disclosure of executive remuneration should be in bands and not of individual executive members.

The Board Chairman informed the Committee that he did not have any issue with considering the proposals raised.

After discussion by the Committee IT WAS RESOLVED that the Consultative Committee supports all of the motions.

The meeting concluded at 12.50pm and lunch was served.

## **9. CONSULTATION WITH THE COMMITTEE**

After lunch Committee members attended one of three sessions run by UniSuper Management dealing with issues relevant to the Fund. The sessions were titled:

- Investments - "Laying the Groundwork for the Next 10 Years";
- Government Changes; and
- How Much is Enough? - Financial Strategies for Retirement.

Confirmed

Chairperson  
/ /2005

**Attachment 2**  
**Long Term Investment Performance**

Plan/Option (After tax and after fees)	Performance Measure	2005				1yr	3yr	5yr
		Dec qtr	Sep qtr	Jun qtr	Mar qtr	% p.a	% p.a	% p.a
SRI Investment Option	UniSuper	4.2	7.4	4.3	1.6	18.7	15.2	n.a.
	Benchmark	4.4	8.0	3.4	1.6	18.5	16.3	n.a.
	Median	4.4	8.4	3.6	1.7	19.5	16.6	n.a.
Shares Option	UniSuper	4.8	8.4	3.8	1.9	20.2	17.6	7.5
	Benchmark	4.4	8.0	3.4	1.6	18.5	16.3	6.6
	Median	4.4	8.4	3.6	1.7	19.5	16.6	5.5
Defined Benefit Plan	UniSuper	4.1	6.0	4.5	2.1	17.7	16.6	8.8
	Benchmark	3.9	6.4	3.2	1.6	16.0	14.9	7.2
	Median	4.6	7.0	3.5	1.0	17.5	14.7	6.6
Growth Option	UniSuper	4.0	5.8	4.4	1.9	17.0	15.9	8.3
	Benchmark	3.9	6.4	3.2	1.6	16.0	14.9	7.2
	Median	4.6	7.0	3.5	1.0	17.5	14.7	6.6
Balanced Option	UniSuper	3.5	4.9	4.0	1.5	14.6	13.7	7.8
	Benchmark	3.5	5.2	3.2	1.2	13.7	12.9	7.2
	Median	4.0	5.9	3.2	1.3	15.0	12.9	7.1
Conservative Balanced Option	UniSuper	3.1	3.9	3.4	1.0	11.9	10.9	6.8
	Benchmark	3.0	3.7	2.9	0.9	10.9	10.3	6.4
	Median	3.1	4.4	2.8	1.0	12.0	10.5	6.4
Capital Stable Option	UniSuper	2.5	2.4	3.2	0.6	8.9	8.3	n.a.
	Benchmark	2.4	2.3	2.9	0.6	8.4	7.9	n.a.
	Median	2.3	2.9	2.4	0.8	9.0	8.0	n.a.
Cash Option	UniSuper	1.4	1.3	1.3	1.3	5.3	4.9	4.7
	Benchmark	1.2	1.2	1.2	1.1	4.9	4.6	4.4
	Median	1.2	1.2	1.2	1.2	4.9	4.7	4.5